

HOUSE BILL ANALYSIS

HB 2071

Brief Description: Excluding a member or manager of a limited liability company from workers' compensation coverage.

Sponsors: Representatives Chandler B. and Clements

Hearing: February 24, 1999

Brief Summary of Bill

- Excludes members or managers of limited liability companies from mandatory industrial insurance coverage.

BACKGROUND:

Industrial insurance applies to all employers, whether persons or corporate, whose trade or business engages in work covered by the industrial insurance law or who contract with workers for personal labor. All employment in Washington must be insured, unless specifically excluded by statute. Exclusions from mandatory coverage include sole proprietors, partners, and certain corporate officers. Employers of persons excluded from mandatory coverage are permitted to elect coverage by filing notice with the Department of Labor and Industries.

In 1994, the Legislature authorized the limited liability company as an alternative form of organizing a business. The limited liability company combines the tax advantages of a partnership with the limited liability advantages of a corporation. The limited liability company is a noncorporate entity that allows the owners to participate actively in management while providing them with limited liability. The limited liability company may avoid being taxed at the entity level because of limitations on transferability of interests, limited existence, and the possibility of owner management.

A limited liability company is formed when a certificate of formation is filed with the Secretary of State. Membership in a limited liability company may occur at the formation of the company or after formation by acquiring an interest in the company and being admitted

as a member.

Member contributions to the limited liability company may be in the form of cash, property, or services rendered, or a promissory note or other obligation to contribute. Allocation of profits and losses are made according to company agreement. If the company agreement does not specify the means of allocation, then allocations are made in proportion to the agreed value of contributions made or required from each member.

Management of the limited liability company is vested in the members unless the certificate of formation provides otherwise. The company agreement may restrict or enlarge the management rights and duties of members as managers. The certificate of formation must vest management in one or more managers if the limited liability company is not to be managed by the members. Unless otherwise provided in the company agreement, managers are selected by the affirmative vote of members contributing, or required to contribute, more than 50 percent of the agreed value of the contributions made or to be made in the company.

SUMMARY OF BILL:

Members or managers of limited liability companies are excluded from mandatory industrial insurance coverage.

RULES AUTHORITY: The bill does not contain provisions addressing the rule making powers of an agency.

FISCAL NOTE: Not requested.

EFFECTIVE DATE: Ninety days after adjournment of session in which bill is passed.